

WILLIAM A. MUNDELL  
CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
MARC SPITZER  
COMMISSIONER

OPEN MEETING



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ARIZONA CORPORATION COMMISSION

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DOCKET NOS: SW-03841A-01-0166, W-03528A-01-0169 and  
SW-03709A-01-0165

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Philip J. Dion III. The recommendation has been filed in the form of an Opinion and Order on:

MOUNTAIN PASS UTILITY COMPANY, PICACHO WATER COMPANY AND  
PICACHO SEWER COMPANY  
(FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **12:00 noon**, on or before:

JUNE 21, 2002

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Open Meeting to be held on:

JUNE 25 and 26, 2002

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

Arizona Corporation Commission

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JUN 12 2002

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*[Signature]*  
BRIAN C. McNEIL  
EXECUTIVE SECRETARY

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ADA Coordinator, voice phone number 602/542-3931, E-mail [shood@cc.state.az.us](mailto:shood@cc.state.az.us)

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL  
CHAIRMAN

3 JIM IRVIN  
COMMISSIONER

4 MARC SPITZER  
COMMISSIONER

5  
6 IN THE MATTER OF THE APPLICATION OF  
MOUNTAIN PASS UTILITY COMPANY FOR  
7 APPROVAL OF FINANCING.

DOCKET NO. SW-03841A-01-0166

8 IN THE MATTER OF THE APPLICATION OF  
PICACHO WATER COMPANY FOR APPROVAL  
9 OF FINANCING.

DOCKET NO. W-03528A-01-0169

10 IN THE MATTER OF THE APPLICATION OF  
PICACHO SEWER COMPANY FOR APPROVAL  
11 OF FINANCING.

DOCKET NO. SW-03709A-01-0165

DECISION NO. \_\_\_\_\_

**OPINION AND ORDER**

12 DATE OF HEARING: January 31, 2002

13 PLACE OF HEARING: Phoenix, Arizona

14 ADMINISTRATIVE LAW JUDGE: Philip J. Dion III

15 APPEARANCES: Mr. Jason Gellman, Legal Division, on behalf of the  
16 Arizona Corporation Commission;

17 Mr. Jim Poulos on behalf of Mountain Pass Utility  
Company, Picacho Water Company and Picacho Sewer  
18 Company; and

19 Mr. Scott S. Wakefield on behalf of the Residential  
Utility Consumer Office.

20 **BY THE COMMISSION:**

21 On November 25, 1998, the Arizona Corporation Commission ("Commission") issued  
22 Decision No. 61266 which granted Picacho Water Company ("Picacho Water") a Certificate of  
23 Convenience and Necessity ("Certificate") to provide water utility service to the public in Pinal  
24 County, Arizona, near the city of Casa Grande. Picacho Water's service area includes a proposed  
25 3,000-acre, age-restricted master planned community known as Sun Lakes - Casa Grande.

26 On October 8, 1999, the Commission issued Decision No. 61994 which granted Picacho  
27 Sewer Company ("Picacho Sewer") a Certificate to provide sewer utility service to the public in Pinal  
28

1 County, Arizona, near the city of Casa Grande. Picacho Sewer's service area includes a proposed  
2 3,000-acre, age-restricted master planned community known as Sun Lakes - Casa Grande.

3 On July 25, 2000, the Commission issued Decision No. 62757 that granted to Mountain Pass  
4 Utility Company ("Mt. Pass") a Certificate to provide wastewater service in a portion of Pinal  
5 County, Arizona, near the city of Tucson. Mt. Pass' service area includes a proposed 2,500-acre  
6 planned residential community known as SaddleBrook Ranch.

7 On February 26, 2001, Mt. Pass filed a financing application requesting that the Commission  
8 authorize Mt. Pass to enter into certain specified financial transactions approving the issuance of up  
9 to \$7,200,000 of new common stock.

10 On February 26, 2001, Picacho Water filed a financing application requesting that the  
11 Commission authorize Picacho Water to enter into certain financial transactions approving the  
12 issuance of up to \$5,700,000 of new common stock.

13 On February 26, 2001, Picacho Sewer filed a financing application requesting that the  
14 Commission authorize Picacho Sewer to enter into certain financial transactions approving the  
15 issuance of up to \$7,900,000 of new common stock.

16 On February 22, 2001, Picacho Sewer and Picacho Water published notice regarding the  
17 financing applications in the Casa Grande Dispatch in Pinal County. The companies docketed the  
18 affidavits of publication on June 3, 2002.

19 On February 24, 2001, Mt. Pass published notice regarding its financing application in the  
20 Arizona Daily Star in Pima County. The company docketed the affidavit of publication on June 3,  
21 2002.

22 On March 30, 2001, the Residential Utility Consumer Office ("RUCO") filed applications to  
23 intervene in the above-captioned dockets.

24 On April 11, 2001, the Commission granted RUCO intervention in the above-captioned  
25 dockets.

26 On November 16, 2001, Staff filed a Staff Report regarding Mt. Pass' application for approval  
27 for financing. In that report, Staff recommended that Mt. Pass be authorized to issue up to  
28 \$5,700,000 in stock equity. That amount represents Mt. Pass' requested financing authorization of

1 \$7,200,000 less \$1,500,000 related to the initial collection system. The Staff Report recommended  
2 that Mt. Pass should construct the collection system with Advances-in-Aid of Construction  
3 ("AIACs"), a zero-cost source of capital. In the report, Staff argued that Mt. Pass' proposal to finance  
4 operating losses with equity does not conform with A.R.S. §40-301(a). However, Staff stated it  
5 recognized that Mt. Pass would have a need for working capital and, therefore, recommended that  
6 \$70,000 of the proposed financing be authorized to be used as working capital.

7 On November 28, 2001, Staff filed a Staff Report regarding Picacho Sewer's application for  
8 approval for financing. In that report, Staff recommended that Picacho Sewer be authorized to issue  
9 up to \$6,200,000 in stock equity. That amount represents Staff Engineering's recommended  
10 financing authorization of \$7,700,000 less \$1,500,000 related to the initial collection system. The  
11 Staff report recommended that Picacho Sewer should construct the collection system with AIACs.  
12 Staff also stated it recognized that Picacho Sewer would have a need for working capital and,  
13 therefore, recommended that \$25,000 of the proposed financing be authorized to be used as working  
14 capital.

15 On November 16, 2001, Staff filed a Staff Report regarding Picacho Water's application for  
16 approval for financing. In that report, Staff recommended that Picacho Water be authorized to issue  
17 up to \$4,700,000 in stock equity. That amount represents Picacho Water's requested financing  
18 authorization of \$5,700,000 less \$1,000,000 related to the initial distribution system. The Staff  
19 Report recommended that Picacho Water should construct the distribution system with AIACs.

20 On November 26, 2001, RUCO filed comments concurring with the Staff Report for Mt. Pass.

21 On December 4, 2001, RUCO filed comments concurring with the Staff Reports for Picacho  
22 Water and Picacho Sewer.

23 On December 10, 2001, Picacho Water, Picacho Sewer and Mt. Pass (hereinafter  
24 "Applicants" or "Companies") filed identical objections to the respective Staff Reports. The  
25 companies objected to the use of AIACs.

26 On January 9, 2002, the Commission issued a Procedural Order that consolidated the above-  
27 captioned matters and also set the matters for hearing.

28

1 On January 31, 2002, a full public hearing was held before a duly authorized Administrative  
2 Law Judge of the Commission at its offices in Phoenix, Arizona. At the conclusion of the hearing,  
3 the matter was taken under advisement pending submission of a Recommended Opinion and Order to  
4 the Commission.

### 5 Discussion

6 The sole issue in dispute in this matter is whether or not to use AIACs to finance the sewer  
7 collection systems and/or the water distribution systems. Applicants argue that they should be  
8 allowed to fund the collection and distribution systems with equity. Staff and RUCO recommended  
9 that, as a condition of granting the financing applications, the Applicants should be required to use  
10 AIACs to fund the collection and distribution systems.

#### 11 **A. Mountain Pass, Picacho Sewer and Picacho Water's Arguments.**

12 In the objections filed to the respective Staff Reports and at the hearing, Applicants objected  
13 to Staff's recommendation to use AIACs. Applicants argued that shareholders should provide the  
14 funds for the initial facilities.

15 Applicants argued that there is no provision in rates that provide the funds required to refund  
16 the obligations under the AIACs. Therefore, Applicants argued, the Applicants may not generate the  
17 funds required to pay for the AIACs.

18 Applicants cited to the cash flow problems that affected Pima Utility Company when it used  
19 AIACs previously. Applicants stated the Pima Utility Company financed all of the water and sewer  
20 line extensions in the community of Sun Lakes with AIACs. The Applicants then noted that, from  
21 1987 to 1992, the Company had to file three rate cases. According to the Applicants, the reason for  
22 these rate cases was that the Company was so far in arrearages due to the refund requirement of the  
23 AIACs that it simply did not have the cash flow to operate properly.

24 The Company argued that the use of AIACs will eventually require an order from the  
25 Commission authorizing a rate increase and/or the issuance of equity to repay the obligations. The  
26 Company cites Decision No. 57645 (November 2, 1991) which not only authorized Pima Utility  
27 Company to increase rates, but also approved over \$2,000,000 in equity, most of which was used to  
28 pay the AIAC obligations that were in arrears.

1 Applicants stated that, in more recent applications, similarly situated utilities have been  
2 allowed to finance their infrastructure using 100 percent equity. Applicants argued that a benefit to  
3 their proposal is that the enormous cost of applying for and litigating an additional rate case and/or  
4 financing applications which are passed on to the ratepayers can be avoided if the Company's  
5 proposal to finance the initial systems with equity is adopted.

6 Applicants argued that the particular situations where AIACs should be utilized do not exist in  
7 these matters. Applicants state they will be providing service to residential lots which are similarly  
8 situated, sized uniformly and are constructed sequentially in the development. The lines are neither  
9 exclusive to one service area, nor are the costs disproportionate to any one customer, which obviates  
10 the need for AIACs. Additionally, the Applicants pointed out that A.A.C. R14-2-406(D) does not  
11 mandate the use of AIACs to finance line extensions.

12 Applicants also argued that Staff and RUCO's fear of the Applicants expanding the utility too  
13 quickly and, therefore, burdening the ratepayers was unwarranted. Applicant argued that if the  
14 utilities proceeded down that path, then the Commission would make determinations as to what plant  
15 was used and useful and, thereby, restrict the utilities' ability to earn a return on anything not deemed  
16 used and useful.

17 Applicants also argued that the Commission's concern in Decision No. 61266 (November 25,  
18 1998) regarding the possibility that Applicants' customers will pay line extension costs twice is  
19 unfounded in these applications. In that Decision, the Commission granted Picacho Water Company  
20 its Certificate to provide water service in the State of Arizona. RUCO had asserted that when the  
21 developer is an affiliate of the utility, as is in the case of Picacho Water, line extensions should be  
22 treated as having been funded by AIACs in setting initial rates. RUCO advocated this policy to  
23 ensure that ratepayers do not pay the cost of line extensions twice, first in the price of their homes  
24 and again in their utility rates. Robson Communities is the developer of both SaddleBrook Ranch  
25 and Sun Lakes-Casa Grande, and is an affiliate of each of the Applicants.

26 Mr. Poulos, who testified on behalf of the Applicants, read a letter into the record from Mr.  
27 Jack Moody, who is the President of Construction of Robson Communities. Mr. Moody's letter  
28

1 discussed the double recovery issue raised by RUCO and addressed by the Commission in Decision  
2 No. 61266. In his letter, Mr. Moody told Mr. Poulos that,

3 I am responsible for establishing the selling prices of the homes in the  
4 communities that we develop . . . [W]here an affiliate of Robson  
5 Communities, Inc., . . . provides the water and wastewater services,  
6 Robson Homes does not include those utilities in the cost of the lots  
7 because the utility companies bear the cost of the infrastructure, including  
8 the cost of the water and sewer lines... In contrast, in our community in  
9 Texas, where the City provides water and wastewater service and assesses  
10 us a utility development fee, we include the cost of the water and sewer  
11 utilities and the lot, in an attempt to recover those costs from the buyers in  
12 the selling cost of the home. (Transcript at page 28.)

13 Applicants argued that there was no evidence in the record that proved Robson Communities  
14 would charge a water and wastewater utility development fee to homeowners.

15 **B. Staff and RUCO's arguments.**

16 RUCO and Staff recommend that the collection systems be financed with AIACs in the case  
17 of the sewer utilities and, in the case of the water utility, they recommend that the distribution system  
18 be financed with AIACs. Staff and RUCO contended that the use of AIACs is appropriate in this  
19 case. Staff testified that AIACs benefit ratepayers because they are a cost free source of capital  
20 compared to equity. Staff further argued that, when AIACs are used, there is a reduction in rate base,  
21 which in turn reduces required operating income. According to Staff, the use of AIACs results in a  
22 reduced revenue requirement for the Company, which ultimately results in lower rates for customers.

23 Staff and RUCO also argued that the AIACs in this case can be distinguished from the AIACs  
24 used in the Pima Utility Company case. Staff and RUCO noted that in the Pima Utility Company  
25 case, Pima was unable to make the refunds that were required under its advances because during that  
26 time period, 70 percent of the approved financing was attributable to AIACs, and that the period of  
27 time for calculating the refund amounts was based on a 5-year recovery period. In contrast, in this  
28 matter, Staff is recommending that AIACs fund only 19 to 21 percent of the entire new plant for each  
of the Applicants. Additionally, Staff and RUCO provided testimony that AIACs are generally  
recoverable over a 10-year period.

At the hearing, Bill Rigsby, a Public Utilities Analyst at RUCO, testified that based on his  
experience, he believes there is a conflict of interest where a utility is affiliated with a developer. He

1 stated that, in developer-owned utility situations, there might be pressure placed on the utility to  
2 finance its planned infrastructure through equity as opposed to AIACs. He testified that it was a  
3 question of "shifting the risk." He indicated that a utility would not want to take on the risk of having  
4 to place capital into a development, especially a new development that may not succeed.

5 During the cross-examination of Mr. Poulos, RUCO asked if the Applicants would commit to  
6 making a non-used and useful adjustment in the forthcoming rate case. Mr. Poulos indicated that the  
7 Applicants were unwilling to make such a commitment.

8 Finally, RUCO and Staff argued that these are new developments and that although the  
9 developer has a track record for successful communities, there are no guarantees in the future as to  
10 the success of the communities that these utilities are proposed to serve. In light of the fact that the  
11 Company would not commit to making a non-used and useful adjustment in the forthcoming rate  
12 case, RUCO argued that AIACs are the only possible way to add some certainty to the future. RUCO  
13 argued that the Applicants should be required to finance the line extensions through AIACs, as that  
14 would add some certainty that the ratepayers would not be subject to the risk in the event that the  
15 development is not successful. Staff and RUCO also pointed to Decision No. 61266 in which the  
16 Commission stated it had a concern regarding the possibility that customers will pay line extension  
17 costs twice, both in the price of the home and in the utility rates.

### 18 C. Analysis

19 We find Staff and RUCO's arguments compelling in this matter. The concerns expressed by  
20 the Applicants in citing the Pima Utility Company case(s) are distinguishable from this matter as the  
21 percentage of the AIACs are significantly less than in the Pima Utility Company example. We find  
22 that the benefit of using AIACs in this matter at the level recommended by Staff and RUCO is  
23 appropriate and properly assigns the risk regarding future development.

24 When a developer is an affiliate of a utility, stricter scrutiny must be applied when reviewing  
25 rate and financing applications. Although Mr. Poulos read into the record a letter stating that Robson  
26 Communities would not charge a development fee in this matter, we have no assurance that the  
27 developer's policy will not change in the future. Additionally, if the policy does change, or is not  
28 followed, the Commission would not have recourse against the developer. Therefore, in order to



1 ensure that customers will not pay line extension costs twice, and in order to ensure that the  
 2 Applicants treat the developer as they would a non-affiliated third party, we find the use of AIACs  
 3 appropriate.

4 Further, although the Applicants have concerns about cash flow and subsequent rate and/or  
 5 financing cases, we find that those concerns are mitigated and outweighed by the fact that AIACs will  
 6 only comprise 19 to 21 percent of the requested financing. Accordingly, the use of AIACs will  
 7 reduce the risk to ratepayers if the development is not successful.

8 Although A.A.C. R14-2-406(D) does not mandate the use of AIACs to finance line  
 9 extensions, for the reasons stated above, we find they are appropriate in these matters.

10 \* \* \* \* \*

11 Having considered the entire record herein and being fully advised in the premises, the  
 12 Commission finds, concludes, and orders that:

13 **FINDINGS OF FACT**

14 1. On November 25, 1998, the Commission issued Decision No. 61266 which granted  
 15 Picacho Water a Certificate to provide water utility service to the public in Pinal County near the city  
 16 of Casa Grande, Arizona.

17 2. On October 8, 1999, the Commission issued Decision No. 61994 which granted  
 18 Picacho Sewer a Certificate to own and operate facilities to provide sewer utility service to the public  
 19 in Pinal County, Arizona.

20 3. On July 25, 2000, the Commission issued Decision No. 62757 that granted to Mt. Pass  
 21 a Certificate to provide wastewater service in a portion of Pinal County, Arizona.

22 4. On February 26, 2001, Mt. Pass filed a financing application requesting that the  
 23 Commission authorize Mt. Pass to enter into certain specified financial transactions approving the  
 24 issuance of up to \$7,200,000 of new common stock.

25 5. On February 26, 2001, Picacho Sewer filed a financing application requesting that the  
 26 Commission authorize Picacho Sewer to enter into certain financial transactions approving the  
 27 issuance of up to \$7,900,000 of new common stock.

28 6. On February 26, 2001, Picacho Water filed a financing application requesting that the

1 Commission authorize Picacho Water to enter into certain financial transactions approving the  
2 issuance of up to \$5,700,000 of new common stock.

3 7. Mt. Pass' service area includes a proposed 2,500-acre planned residential community  
4 known as SaddleBrook Ranch located northeast of Oracle Junction located in Pinal County, Arizona,  
5 approximately 30 miles north of Tucson.

6 8. Mt. Pass does not serve any customers. However, it is anticipated that Mt. Pass will  
7 provide wastewater services to approximately 6,200 homes at build-out.

8 9. The funds provided by the proposed \$7,200,000 stock issuance will be used to pay for  
9 the design and construction of Mt. Pass' initial sewer infrastructure.

10 10. On November 16, 2001, Staff filed a Staff Report regarding Mt. Pass' application for  
11 approval for financing. In that report, Staff recommended that Mt. Pass be authorized to issue up to  
12 \$5,700,000 in stock equity. That amount represents Mt. Pass' requested financing authorization of  
13 \$7,200,000 less \$1,500,000 related to the initial collection system. The Staff Report recommended  
14 that Mt. Pass should construct the collection system with AIACs.

15 11. Staff Engineering has reviewed Mt. Pass' application and considers the proposed  
16 design construction cost to be reasonable and appropriate.

17 12. AIACs are contracts between a developer and the utility that provide for the developer  
18 to finance the initial cost of a line extension. If the development is successful and the utility  
19 generates revenues from the customers on the line extension, then the utility refunds a percentage of  
20 those revenues to the developer over time.

21 13. In the Staff Report, Staff recognized that Mt. Pass would have a need for working  
22 capital, and therefore recommended that \$70,000 of the proposed financing be authorized to be used  
23 as working capital.

24 14. On November 26, 2001, RUCO filed comments regarding Mt. Pass' application, which  
25 concurred with Staff's recommendations.

26 15. Picacho Sewer service area includes a proposed 3,000-acre, age-restricted master  
27 planned community known as Sun Lakes - Casa Grande located in Pinal County, Arizona, near the  
28 city of Casa Grande.

1       16.     Picacho Sewer does not serve any customers. However, it is anticipated that Picacho  
2 Sewer will provide wastewater services to approximately 8,000 homes at build-out.

3       17.     The funds provided by the proposed \$7,900,000 stock issuance will be used to pay for  
4 the design and construction of Picacho Sewer's initial sewer infrastructure.

5       18.     On November 28, 2001, Staff filed a Staff Report regarding Picacho Sewer's  
6 application for approval for financing. In that report, Staff recommended that Picacho Sewer be  
7 authorized to issue up to \$6,200,000 in stock equity. That amount represents Staff Engineering's  
8 recommended financing authorization of \$7,700,000 less \$1,500,000 related to the initial collection  
9 system. The Staff report recommended that Picacho Sewer should construct the collection system  
10 with AIACs.

11       19.     Staff Engineering has reviewed Picacho Sewer's application and believes the  
12 appropriate capital requirements for the projects to be \$7,700,000. Picacho Sewer agreed to accept  
13 Staff Engineering's calculation of \$7,700,000.

14       20.     In the Staff Report, Staff recognized that Picacho Sewer would have a need for  
15 working capital and, therefore, recommended that \$25,000 of the proposed financing be authorized to  
16 be used as working capital.

17       21.     On December 4, 2001, RUCO filed comments regarding Picacho Sewer's application,  
18 which concurred with Staff's recommendations.

19       22.     Picacho Water's service area includes a proposed 3,000-acre age-restricted master  
20 planned community known as Sun-Lakes located in Pinal County, Arizona, near the city of Casa  
21 Grande.

22       23.     Picacho Water does not serve any customers. However, it is anticipated that Picacho  
23 Water will provide water services to approximately 8,000 homes at build-out.

24       24.     The funds provided by the proposed \$5,700,000 stock issuance will be used to pay for  
25 the design and construction of Picacho Water's initial water infrastructure.

26       25.     On November 28, 2001, Staff filed a Staff Report regarding Picacho Water's  
27 application for approval for financing. In that report, Staff recommended that Picacho Water be  
28 authorized to issue up to \$4,700,000 in stock equity. That amount represents Picacho Water's

1 requested financing authorization of \$5,700,000 less \$1,000,000 related to the initial distribution  
2 system. The Staff report recommended that Picacho Water should construct the distribution system  
3 with AIACs.

4 26. Staff Engineering has reviewed Picacho Water's application and considers the  
5 proposed design construction cost to be reasonable and appropriate.

6 27. On December 4, 2001, RUCO filed comments regarding Picacho Water's application,  
7 which concurred with Staff's recommendations.

8 28. On December 10, 2001, Picacho Water, Picacho Sewer and Mt. Pass filed identical  
9 objections to the respective Staff Reports. The companies objected to the use of AIACs.

10 29. On January 9, 2002, the Commission issued a Procedural Order that consolidated the  
11 above-captioned matters and also set the matter for hearing.

12 30. Applicants filed affidavits of publication in each of the respective dockets that comply  
13 with the notice requirement as prescribed by law.

14 31. On January 31, 2002, a full public hearing was held before a duly authorized  
15 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. At the conclusion of  
16 the hearing, the matter was taken under advisement pending submission of a Recommended Opinion  
17 and Order to the Commission.

18 32. The use of reasonable amounts of AIACs will reduce the risk to ratepayers if a  
19 proposed development is not successful.

20 33. When a developer is an affiliate of a utility, stricter scrutiny must be applied when  
21 reviewing rate and financing applications.

22 34. It is reasonable and appropriate to allow Picacho Sewer and Mt. Pass to use the Staff  
23 recommended portion of the financing approved herein as working capital.

24 35. The Commission has analyzed the issues and evidence as presented by the parties and  
25 has resolved the issues as stated in the Discussion above.

26 36. The Commission hereby adopts and incorporates the Discussion and the  
27 Commission's resolution of the issues therein.

28 ....

**CONCLUSIONS OF LAW**

1  
2 1. Mountain Pass Utility Company, Picacho Water Company, and Picacho Sewer  
3 Company are public service corporations within the meaning of Article XV of the Arizona  
4 Constitution and A.R.S. §§ 40-301 and 40-302.

5 2. The Commission has jurisdiction over Mountain Pass Utility Company, Picacho  
6 Water Company, and Picacho Sewer Company and the subject matter of the applications.

7 3. That Staff's recommendations in Findings of Fact Nos. 10, 13, 18, 20 and 25 are  
8 reasonable and should be adopted.

9 4. A.A.C. R14-2-406(D) does not mandate the use of the AIACs, but AIACs are  
10 appropriate in these matters.

11 5. Notices of the applications were given in accordance with the law.

12 6. The financings approved herein are for lawful purposes within Mountain Pass Utility  
13 Company's, Picacho Water Company's, and Picacho Sewer Company's corporate powers, are  
14 compatible with the public interest, with sound financial practices, and with the proper performance  
15 by Mountain Pass Utility Company, Picacho Water Company, and Picacho Sewer Company of  
16 service as public service corporations, and will not impair Mountain Pass Utility Company's, Picacho  
17 Water Company's, and Picacho Sewer Company's ability to perform that service.

18 7. The financings approved herein are for the purposes stated in the respective  
19 applications and are reasonably necessary for those purposes, and such purposes are in part and as set  
20 forth herein, reasonably chargeable to operating expenses or to income.

**ORDER**

21  
22 IT IS THEREFORE ORDERED that Mountain Pass Utility Company is authorized to issue  
23 up to \$5,700,000 in stock equity, and that Mountain Pass Utility Company is authorized to use up to  
24 \$70,000 of the proposed financing as working capital. This approval is subject to the condition that  
25 Mountain Pass Utility Company construct the initial collection system with advances in Aid-of-  
26 Construction as recommended by Staff in Finding of Fact No. 10.

27 IT IS FURTHER ORDERED that Picacho Sewer Company is authorized to issue up to  
28 \$6,200,000 in stock equity, and that Picacho Sewer Company is authorized to use up to \$25,000 of

1 the proposed financing as working capital. This approval is subject to the condition that Picacho  
2 Sewer Company construct the initial collection system with advances in Aid-of-Construction as  
3 recommended by Staff in Finding of Fact No. 18.

4 IT IS FURTHER ORDERED that Picacho Water Company is authorized to issue up to  
5 \$4,700,000 in stock equity. This approval is subject to the condition that Picacho Water Company  
6 construct the initial distribution system with advances in Aid-of-Construction as recommended by  
7 Staff in Finding of Fact No. 25.

8 IT IS FURTHER ORDERED that Mountain Pass Utility Company is hereby authorized to  
9 engage in any transactions and to execute any documents necessary to effectuate the authorization  
10 granted herein.

11 IT IS FURTHER ORDERED that such authority is expressly contingent upon Mountain Pass  
12 Utility Company's use of the proceeds for the purposes set forth in its application.

13 IT IS FURTHER ORDERED that Picacho Sewer Company is hereby authorized to engage in  
14 any transactions and to execute any documents necessary to effectuate the authorization granted  
15 herein.

16 IT IS FURTHER ORDERED that such authority is expressly contingent upon Picacho Sewer  
17 Company's use of the proceeds for the purposes set forth in its application.

18 IT IS FURTHER ORDERED that Picacho Water Company is hereby authorized to engage in  
19 any transactions and to execute any documents necessary to effectuate the authorization granted  
20 herein.

21 IT IS FURTHER ORDERED that such authority is expressly contingent upon Picacho Water  
22 Company's use of the proceeds for the purposes set forth in its application.

23 IT IS FURTHER ORDERED that approval of the financings set forth herein does not  
24 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
25 proceeds derived thereby for purposes of establishing just and reasonable rates.

26 ....

27 ....

28 ....

1 IT IS FURTHER ORDERED that Mountain Pass Utility Company, Picacho Sewer Company  
2 and Picacho Water Company shall each file with the Commission copies of all executed financing  
3 documents setting forth the terms of the financing within 30 days of obtaining such financing.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.  
6  
7

8 CHAIRMAN

COMMISSIONER

COMMISSIONER

9  
10 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
11 Secretary of the Arizona Corporation Commission, have  
12 hereunto set my hand and caused the official seal of the  
13 Commission to be affixed at the Capitol, in the City of Phoenix,  
14 this \_\_\_\_ day of \_\_\_\_\_, 2002.

15 BRIAN C. McNEIL  
EXECUTIVE SECRETARY

16 DISSENT \_\_\_\_\_

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1 SERVICE LIST FOR:

MOUNTAIN PASS UTILITY COMPANY ET AL.

2 DOCKET NO.

SW-03841A-01-0166 ET AL.

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11 Chris Kempley, Chief Counsel  
Legal Division  
12 ARIZONA CORPORATION COMMISSION  
1200 W. Washington Street  
13 Phoenix, AZ 85007

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